

**COUNTERTRADE AND INTERNATIONAL
OUTSOURCING –A RELATIONSHIP AND NETWORK
PERSPECTIVE**

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ABSTRACT

This paper looks at the reduction in the focus on countertrade in academic literature and the media and finds that the causes of countertrade continue to exist. It considers alternative activities that appear to have replaced countertrade such as international outsourcing and conclude that these address the same underlying issues as countertrade but reflect the changes in the international business environment over the last decade. The connection between countertrade and international outsourcing is that both are forms of linked internationalisation based on reciprocity, mutual dependency and long term relationships. The paper concludes that the network paradigm offers the best explanation for linked forms of internationalisation including both countertrade and international outsourcing.

INTRODUCTION

Recently the media has embarked on a ‘feeding frenzy’ about practices termed ‘offshoring’ and international outsourcing’ decrying the loss of jobs, closing of factories and transfer of technology offshore. The issue has been debated in the Australian Parliament and research briefs prepared (Grant, 2005) to assist government in addressing the issue. In the telecommunications sector alone, Telstra has shifted 850 jobs to India and its competitors Optus and Hutchison have shifted 150 and 200 jobs respectively offshore. Not only has Australia’s national airline shifted call centre type jobs offshore but it moved 400 flight crew positions to London. Ironically, the effect of such actions on employment in the local economy is similar to the impact in the past of those forms of countertrade involving reciprocal commitments such as offsets, but-back and counterpurchase. These were in vogue during the last three decades of the 20th century but have largely disappeared from popular consciousness since the collapse of Communism.

COUNTERTRADE IN THE NEW MILLENNIUM

International countertrade is the linking of an inward and an outward international business activity in a reciprocal fashion. It has been variously defined in terms of only the linking of import and export transactions (Banks, 1983) to unconventional trade practices that impose some sort of reciprocity (Hennart, 1989). The preferred definition and the one that will be applied in this paper is that of Zurawicki and Swchmezean (1991) that it is “conditional trade requiring full or partial reciprocity through international business transactions”.

In the two decades from 1977 to 1997, there was considerable focus in the media on countertrade and a large amount of academic research into this aspect of international trade took place. There were countertrade associations in a number of countries including South Africa, the USA and Australia and a number of countertrade newsletters and journals published. Today, there is very little academic research in evidence and most countertrade associations and practitioner publications have disappeared. Does this mean that countertrade has disappeared or that it continues to exist in another form or that it is now called something else? As an example, offsets is an accepted form of countertrade in most parts of the world except the US where it is

not considered countertrade. However, Williams and Muall (2007) found that more countries are publishing offsets rules, the value of offsets in US contracts increased from 56% in 1998 to 88% in 2004, and that the value of offsets agreements reported by US exporters for the period 1993 to 2004 was US\$51 billion. The figure for 2004 was the highest for any year in that period at US\$4.9 billion.

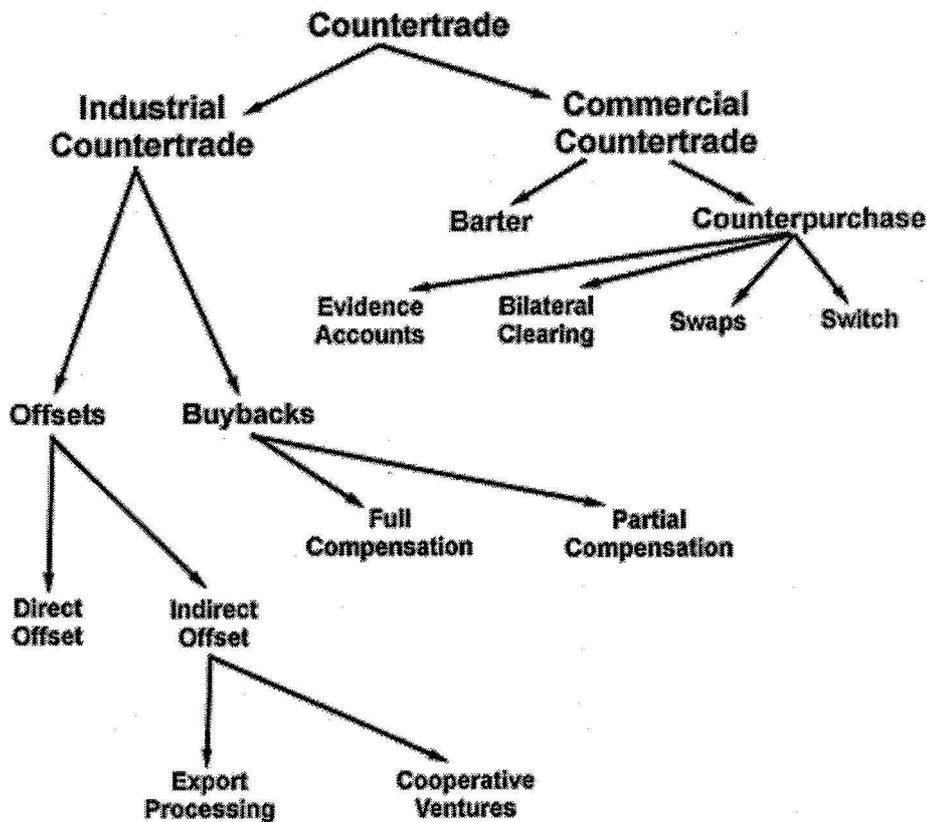
To some extent this apparent reduction in the focus on countertrade can be traced to the fall of communism as centrally planned economies accounted for 36% of countertrade transactions in period 1987 to 1999 (Fletcher, 2005, p.786). It can be argued that as these economies adopted an increased marketing orientation, the need for countertrade lessened as economic activities became increasingly controlled by the private sector and less mandated by government. On the other hand, now known as transition economies, these countries face many of the problems of developing countries such as absence of rule of law, shortages of foreign exchange and absence of up to date technology. Furthermore, the virtual disappearance of communism does not explain the decline in research into countertrade and mentions of countertrade activity in the rest of the world, especially the developing countries. Also, the underlying causes of countertrade do not disappear because of a shift in control of international business activities from the public to the private sector.

Countertrade has always been difficult to 'get a handle on' as measuring its extent has always been a problem as it was frequently used as an avoidance mechanism and many in developed countries considered it to be an unorthodox practice and not worthy of recognition. This is why estimates of countertrade vary widely and tend to be based on numbers of countertrade transactions rather than values involved.. However, many of the underlying drivers of countertrade are still with us such as adverse long term declines in terms of trade for the developing countries, the increase in non tariff barriers on agricultural products imposed by developed countries, reduction in aid flows, the desire to acquire new technology and balance of payment problems. One of the solutions to such problems is to engage in activities which avoid short term exchanges and create long term obligations involving reciprocity and mutual dependency. This trend has not disappeared nor the focus on using techniques to reduce transaction costs rather than merely focussing on saving foreign exchange.

Forms of international countertrade

As Figure 1 shows, countertrade takes a number of forms to address the circumstances described above.

FIGURE 1. The complex web of countertrade transactions



Source: Brennan, M. (1998)

From this figure, it can be seen that the major forms of countertrade are:

- Barter – the direct exchange of goods and services between importer and exporter. These are short term arrangements. This accounts for 4% of countertrade transactions.
- Counterpurchase – these involve three contracts, one of which relates to the sellers goods, the second to the undertaking by the buyer to purchase the countertraded goods and the third linking the other two contracts. These arrangements cover the exchange of packages of goods/services rather than the exchange of one item for another and often cover a number of years. This accounts for 54% of countertrade transactions.
- Offsets are associated with purchases made by governments or private entities subject to government control and can be direct and involve supply of items to go into the item being purchased or indirect and involve purchase of unrelated items to compensate for the foreign exchange outlay involved in the purchase. A major driver of offsets is the acquisition of technology which results from the manufacture of components in the other country. This form accounts for 15% of countertrade transactions.
- Buy-back – involves a firm building/rehabilitating a plant in another country and being paid from the resulting output of that plant. It is long term,

facilitates industrialisation and involves technology transfer. It is also long term. This accounts for 21% of countertrade transactions.

(see Fletcher 2005, p. 786) for detailed figures relating to the 12 year period 1987 to 1999).

Countertrade can be either be mandated by government (as with offsets), influenced by government policies such as restricting availability of foreign exchange (as with counterpurchase) or the result of government imposing conditions on investment approvals (as with buy-back). Countertrade can also be between private entities. Countertrade is often covered in bilateral trade agreements between countries or in agreements between members of a grouping of countries. As an example, for many years India's trade with the Soviet Bloc was covered by arrangements that provided for the trade to be on a rupee payment basis rather than a free foreign exchange basis.

Countertrade can either be short term or long term. Short term countertrade takes the forms of barter and switch deals and is driven by a desire to avoid money based exchange, whereas long term countertrade takes the form of offsets, counterpurchase and buy-back and is driven by reciprocal commitment. Over the period 1987 to 1999, long term forms accounted for 90% of countertrade. Some long term countertrade is directly related to the end 'product' and other countertrade is more focussed on indirect benefits such as acquisition of technology. The drivers of countertrade reflect attempts to build reciprocity in order to reduce transaction costs for intermediate products, technology and services in the international market. These longer term forms of countertrade involve trust, opportunities and forbearance (Choi et al, 1999), as well as shortages of foreign exchange, need to acquire technology, a way of overcoming trade barriers and the reduction in international aid.

INTERNATIONAL OUTSOURCING IN THE NEW MILLENNIUM

International outsourcing occurs when inputs formerly provided from within the firm are now supplied from sources in other countries. (Knudsen and Servais, 2005) posit that outsourcing occurs when an activity formerly conducted inside the firm is carried out by an external source. Offshoring is the relocating to another country of an activity that remains under the control of the firm. Grant (2005) defines it as a business decision to employ workers in other countries to do the work done by locals. From the above, there appears to be overlap between the definitions of outsourcing in the international domain and offshoring. Therefore, offshoring will be included in international outsourcing in further discussion in this paper. As with countertrade, international outsourcing is driven by both economic and strategic motives.

International outsourcing can be relate to both goods and services. International outsourcing of goods is not only driven by cost considerations but also by the desire to access markets through partnerships with firms in target overseas markets. The major recent beneficiary of the international outsourcing of goods has been China and not only cost considerations but also the desire to attract new technology has stimulated this. The international outsourcing of services has been facilitated by the recent revolution in communications. Also, the digitisation of information has resulted in services that were not formerly tradeable internationally becoming so. The major recent beneficiary of the international outsourcing of services has been India

reflecting that services outsourcing requires availability of large numbers of educated people and to a lesser extent language skills, particularly in English. Other drivers of international outsourcing are global competition, shortened product life cycles and the increasing requirement for customisation (Nippa and Rosenberger, 2006). International outsourcing has also been facilitated by changes in the global business environment such as a lowering of trade barriers and changes in ways of managing the value chain across international boundaries.

Despite the hope that was engendered by the late stages of the Uruguay Round of GATT and the formation of the WTO, multilateralism has not lived up to its promise and an increasing number of countries are forming free trade arrangements with each other and regional trade grouping are both expanding to include new members and moving further along the path to becoming economic unions. Driving these moves are commercial considerations based on economic linkages that span national boundaries. The lowering of barriers between partners in such arrangements facilitates cooperative arrangements between firms in different countries that are party to the same arrangement. Where one country in the bi-lateral or regional arrangement has significantly lower labour costs, then the high labour content elements of the offering could be undertaken in that country (e.g. Mexico as a member of NAFTA). This has been a stimulus to international outsourcing.

Linked to the above is the fact that increasingly industries and the players in them span national boundaries rather than are confined to a single country. New technologies and more open economies make it easier to relocate higher value stages in manufacturing to new overseas locations. The path set by the aerospace industry beginning with the Airbus consortium has been followed by many organizations leading to collaboration via strategic alliances. Rather than firms doing as much as possible 'in house', the trend is to improve competitiveness by reducing the number of value chain elements performed by the firm and by also having different elements of the manufacturing process undertaken (both in country and offshore) by others who are more competitive.

Knudsen and Servais (2005) have developed a typology that characterises international offshoring in terms of degree of control compared to degree of involvement.

TABLE 1: Types of international purchasing

<i>HIGH</i> <i>Degree of control</i>	International subcontracting	Own foreign production
	International purchasing	Foreign joint venture manufacturing
<i>LOW</i>	<i>LOW</i>	<i>HIGH</i>
	<i>Degree of involvement</i>	

The quadrants in this 2 x 2 matrix are as follows:

- *Offshore purchasing* – firm stops producing an item and commences to purchase the item from an overseas source instead. This change is usually driven by it being cheaper to import the item than continue to produce it ‘in house’.
- *Offshore subcontracting* – the buyer includes a part of the supplier’s production in the manufacture of its own products. This usually requires collaboration and often adaptation of the product.
- *Joint-venture offshore manufacture* – buyer and seller jointly set up a production facility in the buyer’s country. Both parties exchange knowledge and both invest in the new physical plant.
- *Controlled offshore manufacture* – the firm transfers production from a fully owned domestic plant to a fully owned plant overseas. This form is driven more by taking advantage of factor conditions in the overseas country than by accommodating foreign customer requirements.

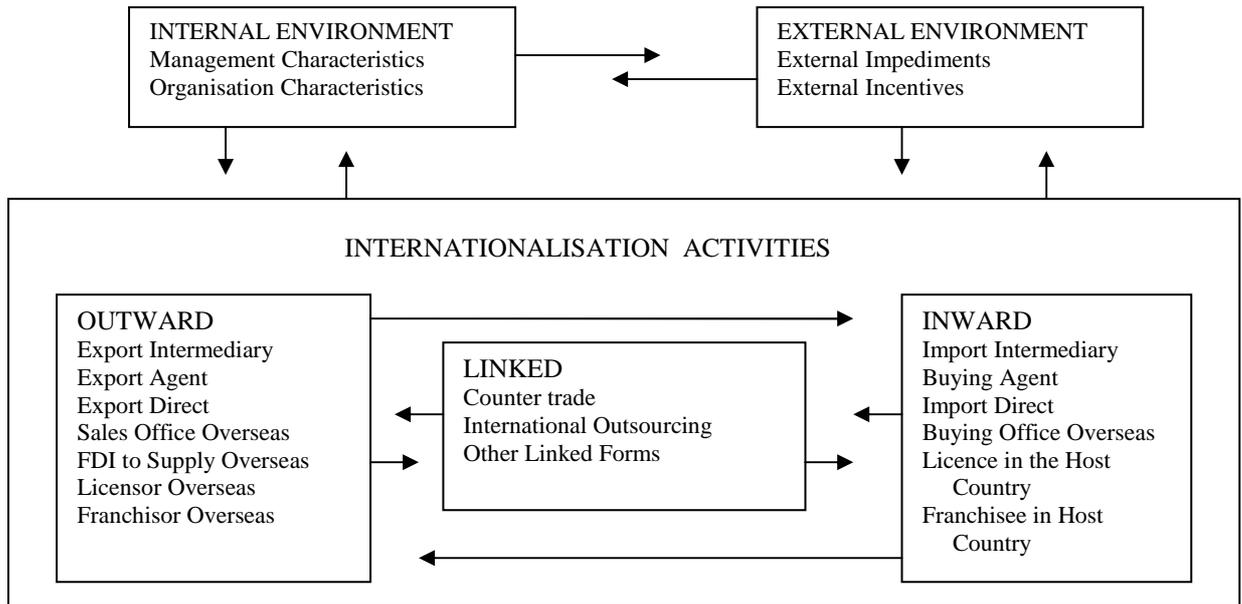
Except for controlled offshore manufacture, this typology of international outsourcing could also be applied to long term forms of international countertrade with offshore purchasing approximating counterpurchase, offshore subcontracting approximating offsets and foreign joint venture manufacturing approximating buy-back.

COUNTERTRADE COMPARED WITH INTERNATIONAL OUTSOURCING

From the above discussion, whilst there are aspects that differ, there appear to be a number of drivers in common between countertrade and international outsourcing. These relate to the desire to acquire new technology, achieve reciprocity, access new or closed markets, improve competitiveness, establish long term business connections and take advantage of opportunities created by international trade relations initiatives between countries.

Both countertrade and international outsourcing are forms of internationalisation. Internationalisation is increasingly becoming a matter of outward activities leading to inward activities (or vice versa) as happens when the licensee of a US firm in Australia becomes the licensor for the same produce in New Zealand. It also can be the result of the international activity itself involving the linking of both outward and inward activities as happens with countertrade and international outsourcing. These are both forms of international activities that involve reciprocity, mutual dependency and an extended time horizon. As such, they involve the linkage of both outward and inward activities and reflect a more holistic approach to internationalisation (Welch and Luostarinen, 1988; Fletcher, 2001; Karlsen et al, 2003). This is modelled in Figure 2

FIGURE 2: A holistic approach to internationalisation



Adapted from Fletcher (2001)

Underlying drivers of linked forms of internationalisation are lack of access to knowledge, reliance on long term planning, pursuit of differential competitive advantage and using personal relationships and networks as a means of overcoming environmental uncertainty. Both developing countries and transition economies find linked forms of internationalisation attractive as a means of creating overseas markets for their basic manufactures and services, for facilitating the development of their infrastructure and for attracting technology. Despite the greater and more convenient availability of knowledge, knowledge is not evenly distributed throughout the world as evidenced by the take up of the Internet varying from a less than 5% in countries such as Ukraine and Indonesia to over 60% in the USA and Denmark (Fletcher and Brown, 2005, p.740). The link between the stage of a country's development as measured by purchasing power parity per capita and Internet adoption rates suggests that less developed countries and transition economies are more likely to suffer from lack of access to knowledge. This may explain why the less developed countries are the largest employers of linked forms of internationalisation. It also enables them to overcome uncertainties as to the quality of what is being provided, the recency of the technology involved, and their restricted bargaining power. Tying the supplier to the output via linked forms of internationalisation, is one way of insuring against these uncertainties. This approach also compensates for asymmetrical nature of the information between the developing country buyer and the developed country seller and in the process reduces risk and uncertainty.

Linked forms of internationalisation by requiring reciprocity, also cater for the financing problem that most developing countries and transition economies face. In addition, linked forms also assist in redressing relative imbalances caused by governments artificially manipulating exchange rates for political and economic reasons such as to reduce labour costs in the country to attract foreign investment. Although developing countries and transition economies desire to both acquire new technology and update existing technologies, often they do not have the talent or the

funds to create their own new technology and must therefore acquire it from others. These countries also have an urgent need to upgrade their local skills base in order to remain competitive and generate new sources of export income. Linked forms of internationalisation such as offsets, international outsourcing and buy-back facilitate the above as they involve the supplier accepting and using the output of the technology supplied or maintaining and servicing such technology.

Both groups of countries usually operate on the basis of a series of five year plans. These allocate development projects and other government expenditures in relation to anticipated foreign exchange earnings, projected aid inflows, likely domestic income generation and other economic variables. Governments create and implement regulations to achieve the objectives of these plans and these often involve restricting imports and regulating foreign direct investment. These regulations impact on the form and extent of engagement by foreign firms and often favour linked forms of internationalisation as their reciprocal elements are likely to have a more favourable impact on the balance of payments. Linked forms (such as the countertrade categories of buy-back and offsets, international outsourcing as well as build/operate/transfer arrangements which can be considered a form of buy-back) are also less likely to create problems for government as far as diminution of national sovereignty is concerned than foreign investment forms such as greenfield developments, investment by acquisition or joint ventures with majority foreign ownership. These linked forms are also more attractive from a political perspective in that they are likely to create more jobs, provide new technology and upgrade local skill levels. In addition, their potential to boost local exports also makes them more politically attractive.

Human beings are social animals and enjoy social contact. Business techniques involving personal interaction, relationship creation and trust existed well before the advent of the money economy. These were epitomised in barter which is intrinsic to human nature and removes the uncertainty of dealing with people at arms length. It involves obligations which failure to discharge usually leads to social stigma. In situations of uncertainty, the tendency is to reduce the risk by dealing with those we know and trust and also by seeking to enter into arrangements that involve reciprocity and mutual obligation. As a consequence, in environments characterised by the above, there is a preference for collaboration rather than competition, especially in those cultures that are high context, collectivist, strong in uncertainty avoidance and high in power distance. Studies have shown that these characteristics are more prevalent amongst developing countries (Fletcher and Melewar, 2001). This leads to a reliance in these countries on relationships and the networks in which the relationships are embedded and forms of internationalisation that are more relationship dependent such as the countertrade forms of counterpurchase, buy-back and offsets, as well as international outsourcing and build/operate/transfer arrangements.

Developing countries and transition economies have been rated as more corrupt by international bodies such as Transparency International. These are also countries where statistical records are often not up to date, and/or unreliable and/or crafted to reflect political agendas. In these countries, there is pressure to use international trade as an avoidance mechanism - be it of international rules as with price discrimination or dumping, or domestic regulations such as transfer pricing, tax avoidance and getting around patent protection. In these countries, there is often a poor legal framework for enforcement of laws. In such circumstances, linked forms of

internationalisation can be an organizational response to contractual uncertainty (Choi, Lee and Kim, 1999).

Various forms of linked internationalisation can be an important way of creating a differential advantage. These forms have the potential to identify appropriate sources of material and service inputs, enhance the proposals put forward in the negotiation and facilitate disposal of goods to existing suppliers. Linked forms such as offsets, buy-back, and international outsourcing relate to the decision by the firm as to whether it should 'make' or 'buy'. By fostering a critical appraisal of all elements in the value chain in terms of their impact on firms' international competitiveness, linked forms assist firms to restructure operations to enhance their overall competitive position. Whereas formerly, international sourcing was a reactive response to global pressures, with linked forms of internationalisation sourcing can be used as a proactive strategy to achieve international competitive advantage. This advantage is further enhanced because due to its emphasis on reciprocity, linked internationalisation can enable new markets to be accessed which might not otherwise be available.

There are a number of theories that have evolved to explain linked forms of internationalisation. According to the value chain approach, firms organize their activities into a global value chain by geographically separating different production stages across the world so as to reduce costs, access new technologies, and take advantage of government support packages offered to industry in various countries. Marin (2005) offers this as an explanation for international outsourcing and offshoring. This geographic separation of elements in the value chain also occurs with the countertrade forms of offsets and buy-back

Another theory is that of hostage taking, where the objective is to design contracts so that compensation for breach of an agreement is safeguarded by their internal properties. Hostage taking can also involve moral as well as contractual obligations in collectivist societies where business is largely based on relationships and networks and where those who do not fulfil an obligation lose their insider status in the network for ever. With the countertrade forms of buy-back and offsets in particular, a double hostage situation exists as the supplier of the technology or components receives products in return that contain or are the output of the technology/materials supplied. As with 'garbage in-garbage out' if the inputs supplied are no good then the output received by the supplying firm will reflect this. In counterpurchase, a hostage exchange also exists because the implied link between the first and subsequent transactions creates stronger bonds between the parties. The same situation applies with other forms of linked internationalisation including offshoring and build, operate and transfer schemes. This discourages the supply of out of date technology or inferior raw materials/components. In an unpredictable and uncertain environment, relying on trust alone is risk laden and the situation of enforced mutual commitment through hostage exchange may overcome the weakness of relying on implicit trust.

THE NETWORK APPROACH AND LINKED FORMS OF INTERNATIONALISATION

The network approach is offered as an explanation for linked forms of internationalisation such as countertrade and international outsourcing. Dunning

(1996) recognises that network related advantages can fill the gap in facilitating transactions created by market failure. Peng and Heath (1996) suggest that these market imperfections can be overcome by on the one hand internalising them via a hostage arrangement as discussed above or on the other by entering into a contractual arrangement that can capitalise on existing levels of social trust or create partner specific trust. When both parties are interdependent as with linked forms of internationalisation, the relationship will require more complex management. With linked forms of internationalisation, reneging on the deal will damage the sellers interest in future technology transfer, in the maintenance of technology already supplied, in securing foreign market access and in using existing political leverage in the interests of the linked arrangement. In imperfect markets, linked forms of internationalisation may operate as an internalising device to source raw materials, components, supplies etc on superior terms on the one hand and as the least costly way to access difficult markets on the other.

With both reciprocal forms of countertrade and international outsourcing, the contractual arrangements can involve a linking of separate networks. Trust based relationships as prevail in many Asian countries such as Japan, provide a basis for confidence in future expanded relationships, promote cooperation and temper the pursuit of self interest. There is increased risk with linked forms of internationalisation and these are addressed by hostage taking. The need for linked forms of internationalisation is highlighted in the case of emerging and transitional economies where stable institutions have not yet been fully developed and the old order is still in the process of being replaced. A consequence of these developments over the last two decades is that international competition is no longer in many cases between individual firms but rather between the networks of which the firm is a member. These networks can be vertical or horizontal. In the case of vertical networks, it is not Ford competing with Chrysler competing with Toyota but rather the network spanning the value chain of which Ford is a member competing with the network of which Chrysler is a member competing with the network of which Toyota is a member. In the case of horizontal networks, it is not only United Airlines competing with American Airlines but of the Star Alliance competing with the One World Alliance group of airlines.

The basic network approach is based on the concept that a network consists of actors who are in focal relationships and/or subsidiary relationships and that these networks of relationships can be mapped. It is possible to show that non participants in the focal relationship may be linked to one of the parties in the focal relationship and/or to actors in subsidiary relationships. Relationships in the network involving actors in subsidiary relationships can impact on the focal relationship or on the network as a whole. It is through these linkages that parties in one network become involved in another and that one network becomes linked to another. This effect is termed by Toornroos (1997) 'embeddedness' – i.e. firms are embedded in wider business networks that extend beyond the boundaries of the individual firm and these networks are distinguished by both connected exchange relationships among business units and the position the firm occupies in relation to other actors in the network. They argue that these wider networks include social networks, regional networks, technological networks, institutional networks, infrastructural networks and market networks. Halinen and Toornroos (1998) explain the evolution of these networks in terms of their having a temporal dimension (relationships and the networks in which they are

embedded have histories and although operating in the present, have aspirations for the future); a spatial dimension (business activities are embedded in regions, countries or groups of countries) and a representational dimension (business actors represent their country, industry and their firm in the eyes of other members of the network). This approach caters for both complexity and reciprocity in international business transactions.

The network paradigm has been used as an explanation for internationalisation. Johanson and Mattsson (1984) categorise modes of entry in terms of international extension (entering a network overseas that is new to the firm); international penetration (consolidating and building upon a position already established in an overseas network) and international integration (coordinating the positions already occupied in networks in different countries). Because of the focus of the network paradigm on collaboration, reciprocity, longer time horizons and transformation of relationships over time, the network approach appears to be the only internationalisation theory that is capable of accommodating the linked forms of internationalisation that characterise many aspects of international marketing in the new millennium.

At the core of the network approach in international marketing is the concept of 'relationships' which implies interdependencies, longer time horizons, and the need for the parties to build up knowledge about each other. These relationships not only facilitate exporting and other outward driven activities but also acquiring resources and other inward driven activities. In these relationships, the characteristic of interdependency is critical. Because the network approach extends beyond the transaction itself and embraces the network in which the transaction is embedded, it is likely that its application to the analysis of linked forms of internationalisation will lead to a more holistic perspective embracing how the relationships developed as a result of the linked form of internationalisation, whether the relationship would have occurred without the linked form of internationalisation, whether the relationship was unique to the linked form of internationalisation and what factors might cause the relationship to continue once the linked international activity had been completed.

Fletcher (1996) applied the network approach to countertrade. He mapped the networks in terms of focal and subsidiary relationships and analysed three countertrade transactions at both the time of their negotiation and at the time of their completion some six to ten years later. He applied the actors/activities/resources model to the three transactions at both points in time. These transactions were a long term counterpurchase arrangement (Independent Seafoods in Vietnam), an offsets arrangement (acquisition of FA18 aircraft by the RAAF) and a buy-back arrangement (Bulk Materials Coal Handling in Vietnam) - this approach is illustrated in Table 2..

TABLE 2: Changes between negotiation/early implementation and early maturity/conclusion of three countertrade arrangements.

Network aspect	F/A-18 aircraft	Coal washery	Seafood processing
Actors	Ownership changes in some Australian sub-contractors	Australian Government replaced financial intermediary	Central Government trading company replaced local government trading company
Activities	The RAAF undertook in-house private sector work	Coal increased importance as source of Vietnamese export revenue	With demise of seafood, operation, replicated for other food activities using same technique
Resources	US Airframe manufacturer opened Australian office	Australian coal engineering firm opened an office in Vietnam	Investment in Vietnam operations needed to keep competitors at bay
Atmosphere	Changed — negative to RAAF and positive to Northrup	Changed — improved overall	Changed — from enthusiasm to disenchantment
Environment	Threat of cold war less and more scrutiny of cost of offsets program	Business environment more open and commercial	New competitors and more liberal business scene
Relationships	Strengthened and led to new business for some major Australian sub-contractors	Strengthened and led to new business for Australian coal engineering firm	Success led to competitive as well as cooperative relationships
Network structure	Little change in the network throughout duration of contract	Importance of Australian government in network increased and existing network led to new business	Network went through rapid expansion, then competition led to diversification into new networks and ultimately bankruptcy

Source: Fletcher (1996), p.182.

By examining these transactions at two distinct points in time in terms of the actors, the activities, the resources, the atmosphere, the environment, the relationships and the network structure, it was possible to show ‘that the networks of relationships in countertrade transactions are transformed over time due to their complexity, reciprocity and government involvement’(Choi, Lee and Kim, 1999). It was also found that new relationships were involved in all three transactions and in each case they led to other firms becoming involved. It was also shown that the original contracts would most likely not have occurred without countertrade and were driven largely by the need to acquire technology, and that one of the unique features attributable to the requirement for countertrade was the need to ensure an export market for the finished product. In each case the countertrade requirement resulted in the development of trust between the parties which caused the relationship to continue once the specific countertrade transaction had been completed.

In the same way that the network approach was used to analyse countertrade, it is argued that it could equally be used to analyse other linked forms of internationalisation such as international outsourcing and this is a topic for future research. It is proposed to undertake a similar analysis of three international outsourcing transactions at the time of both their inception and five years later.

CONCLUSION

In this paper, the various forms of countertrade were reviewed in relation to factors and issues in the new global business environment. It was argued that the issues that were responsible for countertrade still remain. These underlying issues create a need for linked forms of internationalisation based on reciprocity, mutual dependency and a longer term time horizon and these needs are now catered for by other forms of linked internationalisation such as international outsourcing. It was further argued that the network approach was best able to explain linked forms of internationalisation and this was demonstrated in the case of countertrade. The paper posits the view that whilst the need for countertrade has not disappeared, it has to some extent been replaced by other forms of linked internationalisation such as international outsourcing.

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